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C O N F I D E N T I A L LA PAZ 000387

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TAGS: ECON EINV ENRG EPET BL
SUBJECT: HYDROCARBONS: YPFB IN DISARRAY, NEW CONTRACTS
STILL NOT IN FORCE

REF: A. LA PAZ 225
¶B. 2006 LA PAZ 2943
¶C. 2006 LA PAZ 3224
¶D. LA PAZ 189

Classified By: Ecopol Counselor Andrew Erickson for reason 1.4 (e).

Summary

¶1. (C) Hydrocarbons Minister Villegas has proposed changes to the May 2005 hydrocarbons law to resolve inconsistencies with the May 2006 nationalization decree and the operation contracts signed last October. Bolivia's state-owned oil company YPFB continues to lack the structural and human capacity to fulfill its duties under the nationalization decree and the contracts. The operation contracts signed in October have not yet entered into force because of several procedural obstacles related to their formal registration. Private production companies' expectations for the sector run the gamut between optimistic and pessimistic, with the two U.S.-invested producers having the most positive views and Brazilian-owned Petrobras fairly displeased with its future options. Following the take-over of a Transredes pumping station by protesters in Camiri, a town in southern Bolivia, President Morales, in a maneuver designed to distract and shift blame, accused Transredes of conspiring with civic leaders in Camiri to sabotage the government. Despite a poor relationship with President Morales, Transredes plans to invest USD 68 million in three pipeline projects during the next two years. Reportedly due to the events in Camiri, Hydrocarbons Minister Villegas resigned on February 8, but President Morales rejected the resignation and ratified Villegas in his position on February 11. End summary.

YPFB in Disarray

¶2. (C) Because of inconsistencies among the May 2006 nationalization decree, the May 2005 hydrocarbons law, the regulatory system law, and the executive power organization law, Hydrocarbons Minister Carlos Villegas proposed to modify the hydrocarbons and the regulatory system laws to enable nationalization to move forward. The proposal would transform YPFB into a hierarchical corporation, eliminating its two vice-presidential offices and creating six operation management offices (in contradiction with the 2005 hydrocarbons law, which mandated the creation of regional vice-presidential offices -- recently demanded by protesters in Camiri -- see paragraph 9.) It would also eliminate the hydrocarbons superintendency and replace it with the National Hydrocarbons Agency, with the authority to regulate both upstream and downstream activities, under the authority of the hydrocarbons ministry.

¶3. (C) Meanwhile, YPFB continues to lack the structural and human capacity to participate in the entire production chain, as mandated by the May 2006 nationalization decree, including taking on the transportation and commercialization responsibilities that it committed to in the new operation contracts signed with producers. YPFB's negotiations with the five companies of which it is supposed to take over majority ownership, based on the nationalization decree, are on hold due to changes in YPFB leadership (ref A) and lack of coordination between YPFB and the ministry regarding the contracting of an independent investment bank to value the companies. Repsol's agreement to supply gas to Argentina ended in December, but YPFB has failed to take the necessary actions to allow Chaco and Vintage, who were granted Argentine market share in a January bidding process, to begin exporting gas to Argentina. Several other contracts have expired, but the status quo has continued due to YPFB's lack of organization and continuity of leadership.

New Contracts Still Not in Force

¶4. (C) The 44 operation contracts signed by hydrocarbons productions companies in October 2006 (ref B) have still not entered into force due to several procedural obstacles related to their formal registration. Manuel Morales, named as YPFB president on January 29 (ref A), lacked the professional qualifications required by YPFB statutes to hold the position; however, company representatives told Econoff on February 9 that the GOB had recently issued a decree to change the YPFB statutes, enabling Morales to sign official documents. In addition, opposition congressmen have launched a constitutional complaint against the midnight senate session which approved the contracts (ref C), which threatens the contracts' validity. The laws passed during that irregular session to approve the contracts did not "approve and authorize" the contracts as required by the constitution, but merely "approved" the contracts, and the laws also contained several typographical and substantive errors. President Morales announced to the press on February 11 that the contracts would be sent back to congress for correction and re-approval. Perhaps the deeper cause of the delay is that once the contracts enter into force, YPFB must take on a host of new duties, for which all sector representatives agree that it is unprepared. Furthermore, as the president of Vintage/Occidental pointed out to Econoff on February 9, once the contracts enter into force, Petrobras will no longer be paying the 32 percent special YPFB tax imposed by the government's May 2006 nationalization decree -- a tax which is currently bringing in USD 41 million per month to YPFB, which is badly in need of cash for its restructuring.

Company Investments on Hold

¶5. (C) Hydrocarbons Chamber General Manager Raul Kieffer told Econoff on February 8 that of all the private company members of the chamber, two were optimistic about the sector's future, several were ambivalent, and a few were pessimistic, expecting that the situation would deteriorate and they would eventually pull out. Kieffer predicted that the gas supply agreement signed between Bolivia and Argentina would be implemented, as he postulated that international banks and the Argentine government would finance the pipeline to transport the gas, but that implementation would be delayed because of the lack of production capacity in Bolivia. Repsol's president agreed that the pipeline would be built because the Argentine government was pressuring companies to invest in it. Kieffer explained that, in Bolivia, companies were currently only investing the minimum necessary to maintain operations, but believed that companies would commit to provide additional gas to YPFB in the second round of bidding scheduled for July (ref D), but predicted a delay of six months.

¶6. (C) According to Kieffer and Vintage President Jorge Martignoni, the two optimistic companies are partially U.S.-owned Chaco and U.S.-owned Vintage/Occidental. Chaco's Vice President Jana Drakic explained to Econoff on February 9 that previously, the unprofitable domestic market was provided for almost completely by Chaco, Andina, and Vintage, with Chaco bearing the lion's share of the burden because of its lack of access to other markets. However, now after the January bidding process (ref D), Chaco and Vintage have been granted the rights to sell their gas to Argentina, at prices five times higher than domestic prices. Drakic explained that, furthermore, the government had issued a resolution requiring all production companies to provide a percentage, proportional to their percentage of total production, of their gas to the domestic market. She added that Petrobras vehemently protested this resolution, as it was currently selling 100 percent of its gas to Brazil. Drakic said that Chaco would invest USD 60 million in 2007 to develop a few small fields. Drakic and Martignoni agreed that the volumes and pipeline needed to supply Argentina would come -- it was just a question of when.

¶7. (C) Argentine/Spanish owned Repsol appears to be in the ambivalent to pessimistic camp. Acting Repsol President Roberto Dominguez told Econoff on February 9 that the sector was in a transition period, and it was unclear if Bolivia would head towards a "Venezuelan model" or if it would seek to solve the problems of its own model. He added that the government lacked a unified state policy, as different factions within the government were vying to implement their own versions of "nationalization." He argued that without reserves, which would not come without exploration, Bolivia would not be able to meet its export commitments to Argentina. He said that under the present uncertain conditions, no one would invest in exploration. British Gas President Jose Magela agreed with Dominguez' assessment. Magela complained that the first round of bidding to supply Argentina did not follow the procedure laid out in the new operation contracts, adding that if the government stopped changing the rules of the game and followed the procedure agreed to in the contracts, BG would invest in the development of the large Margarita and Itau gas fields.

¶8. (C) The biggest player in the sector, Brazilian-owned Petrobras, seems fairly pessimistic. Petrobras President Hugo Paredo told Econoff on February 8 that the companies that needed to invest to expand production would not agree to provide gas to Argentina because of the lack of investment security. He complained about the "discretionality" of the contracts, which did not favor Petrobras. He expressed concern about having to sign a delivery agreement to provide for the domestic market, since Petrobras was currently obligated by contract to export all of its production, which was at its maximum, to Brazil. However, Paredo noted that the companies must negotiate a solution with the government and added that, given the right conditions, Petrobras would be able to provide around 2 million cubic meters per day of

gas to Argentina within two or three years.

Sabotage: GOB Seeks to Shift Blame for Camiri

¶9. (C) The Camiri Civic Committee took over a Transredes oil pumping station on February 2, demanding that the government comply with the terms of the 2005 hydrocarbons law, re-found YPFB, and install a YPFB vice president office in Camiri, 160 miles south of Santa Cruz. The military re-took the Transredes station on February 3, leaving 12 people wounded. Early on February 5, the government agreed to open a YPFB vice-presidential office in Camiri and reactivate marginal gas fields in the area. On February 7, President Morales accused Transredes (Shell and Ashmore Energy) of closing valves that supply liquefied natural gas and crude oil to the domestic market prior to the take-over by the protesters in a purposeful attempt to foment anti-government protests.

Transredes President Ernesto Blanco explained to Econoff on January 9 that the valves were closed to prevent possible explosions that could have occurred during the take-over by the protesters, and that the closure was cleared previously with GOB officials. Blanco alleged that the guilt lay with the government, which failed to take action even though the Camiri Civic Committee announced its intentions to take over the pumping station three days prior to actually doing so. The accusations appear to have been driven by President Morales and Vice President Garcia Linera, as the hydrocarbons regulator had defended Transredes' actions and Hydrocarbons Minister Villegas, who Blanco described as honest and understanding of the sector, refused to declare against the company. Despite the problems with the GOB, Blanco expressed satisfaction that the government had finally issued long-promised regulations for the transportation sector and said that the company planned to announce a USD 68 million investment in three pipeline projects that day.

Minister's Resignation Refused

¶10. (C) Hydrocarbons Minister Carlos Villegas resigned on February 8, but his resignation was rejected by President Morales who ratified Villegas in his position on February 11. According to press reports, Villegas resigned due to the events in Camiri, rather than because of disagreements with YPFB President Manuel Morales. Repsol Acting President Roberto Dominguez told Econoff on February 9 that he thought Villegas resigned because he had not been informed by YPFB of problems relating to YPFB's restructuring and the operation contracts.

Comment

¶11. (C) The complete chaos at YPFB, vying political factions within the Morales administration, and the legal hurdles confronting the operation contracts mean that Bolivia's hydrocarbon sector is still in limbo. Although two of the four U.S. invested companies (the two producers, not the two pipeline operators) are fairly pleased with the turn of events, the larger players -- Petrobras, BG, and Repsol -- are more pessimistic about the government's ability to guarantee the investment security needed to stimulate the sector and meet international commitments. End comment.
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